B4750-1
2/18/83

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Feb. 18, 1983

Chairman Volcker's statements before the Senate Banking Committee, while long awaited, did little to dispel the uncertainty over the main thrust of Federal Reserve policy. Amid great complications, Mr. Volcker sought to leave the impression that the monetary aggregates' targets were unchanged in terms of their likely impact on the economy. However, the senators' questions showed less concern over the aggregates' targets than over the effect of interest rates on the economy. Here something interesting has happened; the Europeans seem to have drawn the conclusion that U.S. interest rates would be lower, while in the U.S. the focus has been on economic recovery as the prime objective. My reading of Mr. Volcker's statements (and my impression drawn from the meeting itself) is different: Mr. Volcker now seems more concerned about the control of inflation than the promotion of recovery.

Mr. Volcker's emphasis in his testimony was on the many temporary factors that have been responsible for the current progress on inflation: depressed commodity prices, a strong dollar, and cyclical economic factors. He stressed that there is "little or no leeway...for 'mistakes' on the side of inflation." He did not say the same about economic recovery. Moreover, he failed to turn aside Senator Riegle's characterization of the prepared text as more concerned with fighting inflation than promoting recovery. Senator Riegle persisted in asking if the current level of interest rates would allow sustained recovery. Mr. Volcker would only say he felt current rates would permit such recovery, but he could not be urged to say recovery was probable with current rates--he said we cannot know, but must wait and see.

For the time being, the recovery looks strong enough to Mr. Volcker to allow a shift in emphasis to fighting inflation. In the current context this means firm, but not higher, interest rates. I am puzzled by the interpretation of Mr. Volcker's statements as pro-recovery. While he is pro-recovery, that is not the emphasis. He seems to treat recovery as predetermined and is even cautious against overstimulation. Also curious is the European view that U.S. interest rates will go lower soon. It seems mostly built on wishful thinking--the evidence is not in Mr. Volcker's speech. The initial European reaction was to the breadth of the money supply targets and thoughts that money was to be less constraining to policy. But scope is not the same as action.

Continued deregulation of financial markets in the U.S. has led the Chairman to back off from the narrowest monetary aggregates--yet he intends to hit the targets he set. Most important is M3 with growth rates unchanged from last year. M2's target is one percentage point higher, and its base will be the February-March average to minimize the distortion of deregulation. M1 has a very broad 4%-8% target, but the Chairman said the desired position in this range will depend on the performance of velocity. The Chairman also said this would be a year of greater discretion. More than in the recent past, the outlook for interest rates will depend on the pure judgment of the Chairman and the FOMC.

Robert A. Brusca

Irving Trust

Market Yields

	2/18/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	17.00%
Effective since	1/11/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	12.00
Federal Funds	8.38	8.50	14.25
Repurchase Agreements	8.38	8.38	13.38
U.S. Treasury Issues			
Bills			
3 months	8.20	8.39	14.14
6 months	8.55	8.66	14.80
1 year	8.80	8.93	14.77
Coupons			
2 years	9.55	9.64	14.92
4 years	9.95	10.10	14.54
7 years	10.30	10.61	14.28
10 years	10.50	10.78	14.21
Long Bond	10.90	10.87	14.00
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.35	8.30	15.00
3 months	8.45	8.50	15.05
6 months	8.65	8.70	15.15
1 year	9.15	9.20	15.15
Banker's Acceptances			
1 month	8.35	8.30	15.40
3 months	8.40	8.45	15.05
6 months	8.60	8.70	15.10
Eurodollar Deposits			
1 month	8.88	8.78	15.44
2 months	9.00	9.00	15.50
3 months	9.13	9.13	15.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.25	8.38	13.25
1 month	8.25	8.38	14.13
3 months	8.25	8.38	14.13
Bank Holding Companies			
1 month	7.25	8.00	14.00
Dealer Placed:			
3 months	8.00	8.49	14.63
New AA Corporate Utility Bond	12.20	12.40	16.50
Tax Exempt			
6 month Project Notes	4.20	4.45	8.00
1 year AAA Bond	4.80	5.00	8.00
5 year AAA Bond	6.30	6.25	9.00
20 year AAA Bond	8.90	8.90	12.25

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I 62832 • French 82629